

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**UNRESERVED FUND BALANCE — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)**  
**GENERAL FUND**

For the Fiscal Year Ended June 30, 2002

(Dollars in Thousands)

	<b>Budgeted Amounts</b>			<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues:</b>				
Taxes:				
Individual income.....	\$ 8,179,300	\$ 8,179,300	\$ 7,134,630	\$ (1,044,670)
Corporate income.....	586,400	586,400	409,323	(177,077)
Sales and use.....	3,796,300	3,796,300	3,705,770	(90,530)
Franchise.....	639,000	639,000	446,271	(192,729)
Insurance.....	321,600	321,600	340,785	19,185
Beverage.....	174,000	174,000	174,645	645
Other.....	259,500	259,500	233,238	(26,262)
Non-Tax:				
Fees, licenses and fines.....	112,000	112,000	110,381	(1,619)
Investment income.....	166,800	166,800	132,592	(34,208)
Disproportionate share receipts.....	107,000	107,000	110,404	3,404
Other.....	184,900	184,900	177,944	(6,956)
Transfers in.....	186,200	186,200	186,260	60
Departmental:				
Federal funds.....	6,036,969	7,526,591	6,704,307	(822,284)
Local funds.....	818,291	843,374	800,750	(42,624)
Inter-agency grants and allocations.....	6,818	79,743	73,175	(6,568)
Intra-governmental transactions.....	630,137	2,444,758	1,898,426	(546,332)
Sales and services.....	60,514	63,193	60,022	(3,171)
Sale, rental and lease of property.....	5,410	11,815	12,169	354
Fees, licenses and fines.....	151,552	155,997	163,896	7,899
Contributions, gifts and grants.....	21,882	29,730	24,532	(5,198)
Miscellaneous.....	61,545	130,437	81,329	(49,108)
Universities.....	535,061	641,387	628,265	(13,122)
Total Revenues.....	<u>23,041,178</u>	<u>26,640,025</u>	<u>23,609,114</u>	<u>(3,030,911)</u>
<b>Expenditures:</b>				
Current:				
General government.....	497,727	856,852	589,077	267,775
Primary and secondary education.....	6,541,338	6,958,729	6,618,325	340,404
Higher education.....	785,330	877,710	789,747	87,963
Health and human services.....	10,222,581	11,791,175	11,245,854	545,321
Environment and natural resources.....	279,956	321,724	253,536	68,188
Economic development.....	121,927	136,344	124,872	11,472
Public safety, corrections, and regulation.....	1,551,058	2,528,317	1,885,405	642,912
Transportation.....	10,030	10,026	8,413	1,613
Agriculture.....	75,703	85,508	75,158	10,350
Capital outlay.....	157,936	157,936	32,936	125,000
Debt service.....	301,429	301,429	300,560	869
Universities.....	2,313,510	2,431,621	2,264,123	167,498
Total Expenditures.....	<u>22,858,525</u>	<u>26,457,371</u>	<u>24,188,006</u>	<u>2,269,365</u>
Excess revenues over (under) expenditures.....				
	182,653	182,654	(578,892)	(761,546)
Transfers from reserves.....	—	—	564,257	564,257
Transfers to reserves.....	(181,800)	(181,750)	(90,000)	91,750
Nonrecurring transfers from other funds.....	—	—	108,421	108,421
Unreserved fund balances (budgetary basis) at July 1, 2001.....	—	—	—	—
Unreserved fund balances (budgetary basis) at June 30, 2002.....	<u>\$ 853</u>	<u>\$ 904</u>	<u>\$ 3,786</u>	<u>\$ 2,882</u>

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**


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**GENERAL FUND BUDGETARY REPORTING**


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**A. General Fund Budgetary Process**

The State of North Carolina operates on a biennial budget cycle with separate annual departmental certified budgets adopted by the General Assembly on the cash basis of accounting for the General Fund.

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Since the budgetary basis differs from generally accepted accounting principles (GAAP), a reconciliation between the budgetary basis and the GAAP basis is presented in section B below.

The legal level of budgetary control is essentially at the object level. However, departments and institutions may make changes at their discretion within the budget of each purpose between and among objects for supplies and materials, current obligations and services, fixed charges and other expenses, and capital outlay. Also, Chapter 116, Article 1, Part 2A of the General Statutes authorized the sixteen universities within the University of North Carolina System to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management (OSBM). Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. All sixteen universities have applied for and received special responsibility status.

Generally, unexpended appropriations at the end of the fiscal year lapse and are reappropriated in the next fiscal year. However, in certain circumstances the OSBM will allow a department to carry forward appropriations for specifically identified expenditures that will be paid in the next fiscal year. This is accomplished by the department writing a check to itself and recording a budgetary expenditure. The check is deposited in the next fiscal year as a budgetary receipt.

A detailed listing of appropriation and departmental budget information is available for public inspection in the separately published "Budgetary Compliance Report" prepared by the Office of the State Controller, 3512 Bush Street, Raleigh, NC 27609-7509 and through the Office of State Budget and Management, 116 West Jones Street, Raleigh, NC 27603-8005.

**B. Reconciliation of Budget/GAAP Reporting Differences**

The *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balances – Budget and Actual (Budgetary Basis – Non-GAAP) – General Fund*, presents comparisons of the legally adopted budget (which is more fully described in section A, above) with actual data on a budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and GAAP financial data.

**Entity differences.** Certain funds not included in the annual budgetary statements but which have the characteristics of governmental funds are presented in the General Fund for GAAP purposes.

**Basis differences.** Budgetary funds are accounted for on the cash basis of accounting, while under GAAP the governmental funds use the modified accrual basis. Accrued revenues and expenditures are recognized in the GAAP financial statements.

**Timing differences.** A significant variance between budgetary practices and GAAP is the authorized carryforward of appropriated funds, which is described in section A.

The following table presents a reconciliation of resulting entity, basis, and timing differences in the fund balances (budgetary basis) at June 30, 2002 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

## NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

	<i>General Fund</i>
Unreserved fund balance (budgetary basis), June 30, 2002	\$ 3,786
Reserved fund balance (budgetary basis),	
Retirees' health premium.....	50,810
Disaster relief.....	317,235
N.C. Railroad acquisition.....	22,081
Fund balance (budgetary basis).....	<u>\$ 393,912</u>
<b><u>Reconciling Adjustments:</u></b>	
<b>Entity Differences:</b>	
Primary government:	
Other.....	142,052
<b>Basis Differences:</b>	
<b>Accrued revenues:</b>	
Taxes receivable.....	745,719
Accounts receivable.....	104,539
Federal funds, net.....	571,488
Other receivables.....	138,069
Less:	
Tax refunds payable.....	(945,426)
Deferred revenue.....	(474,486)
Total accrued revenues.....	<u>139,903</u>
<b>Accrued expenditures:</b>	
Medical claims payable.....	(698,338)
Accounts payable and accrued liabilities.....	(499,004)
Other payables.....	(22,714)
Total accrued expenditures.....	<u>(1,220,056)</u>
<b>Other Adjustments:</b>	
Notes receivable.....	4,114
Inventories.....	43,772
Investments.....	148
<b>Timing Differences:</b>	
Authorized carryforward for specific encumbrances.....	27,673
Authorized carryforward for designated programs.....	119,931
Fund balance (GAAP basis) June 30, 2002.....	<u><u>(\$348,551)</u></u>

### C. Budgetary Reserves

The North Carolina General Assembly has established several accounts in the General Fund as reserved fund balances for budgetary purposes. Funds that are transferred to these accounts from the unreserved credit balance of the General Fund can be used only for their intended purposes and on a budgetary basis are not available for appropriation.

**Savings Reserve Account (G.S. 143-15.2 through 143-15.3B).** One-fourth of any unreserved credit balance (budgetary basis) remaining in the General Fund at the end of each fiscal year will be transferred to the Savings Reserve account until the account contains funds equal to 5% of the amount appropriated the preceding year for the General Fund operating budget. Funds were not transferred to the Savings Reserve Account for fiscal year 2001-2002 in accordance with Session Law 2002-126, Senate Bill 1115, Section 2.2.(m).

**Retirees' Health Premiums Reserve.** This reserve account was established to receive and temporarily retain employer contributions for retirees' health insurance premiums made by all State agencies and universities and by local governments that have employees who are members of the State Health Plan. Since a significant portion of the funding for this account is from sources outside the reporting entity and legally restricted

for a specific future use, it is reported as reserved fund balance for GAAP purposes.

**Repairs and Renovations Reserve Account (G.S. 143-15.2 through 143-15.3B).** This reserve account provides for a portion of the State's continuing capital needs. The reserve balance is based on 3% of the estimated replacement value of all State buildings supported from the General Fund. The funds in this account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds were not transferred to the Repairs and Renovations Reserve Account for fiscal year 2001-2002 in accordance with Session Law 2002-126, Senate Bill 1115, Section 2.2 (n).

**Clean Water Management Trust Fund (G.S. 143-15.2 through 143-15.3B).** This reserve account provides for the Clean Water Management Trust Fund to finance projects to clean up or prevent surface water pollution as approved by the Clean Water Management Commission. The amount reserved in the General Fund each year is defined as 6.5% of any unreserved credit balance remaining in the General Fund at the end of the fiscal year, or \$30.0 million dollars, whichever is greater. For the fiscal year 2001-2002, no funds were placed in this reserve.

**North Carolina Railroad Acquisition Reserve and North Carolina Railroad Dividends Reserve (1997 General Assembly, Senate Bill 352, Section 32.30).** For fiscal year 1996-97, the General Assembly established the Railroad Reserve Account. In order to help promote trade, industry, and transportation within the State of North Carolina and to advance the economic interests of the State and its citizens, the General Assembly found it advantageous for the State to acquire the outstanding shares of the North Carolina Railroad Company not held by the State. On April 1, 1998 the General Fund loaned the North Carolina Railroad Company \$61 million for the retirement of non-State owned common stock shares of the Railroad. The 1999 General Assembly's House Bill 168, (*signed June 30, 1999*) required \$19 million of Railroad dividends paid to the State during fiscal year 1999-2000, be used for specific purposes related to the Railroad and that they directly reduce the Railroad's obligation to the State. The 1999 General Assembly's House Bill 1840, (*signed June 30, 2000*) amended G.S. 124-5.1, *State use of North Carolina Railroad dividends*, and stated that any dividends paid to the State shall be used for the improvement of the property of the Railroad and therefore reduce the Railroad's loan obligation to the State. During the fiscal year 2001-02 the State received \$9.5 million in dividends from the North Carolina Railroad Company, thus reducing the outstanding obligation to \$22.1 million.

**Disproportionate Share Reserve Account (1997 General Assembly, Senate Bill 352, Section 11).** Disproportionate share payments are Medicaid payments made to hospitals which serve a disproportionate share of indigent patients. This account was established to reserve for future appropriation any excess collection of disproportionate share revenues above those budgeted as departmental receipts or non-tax revenues.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Easley Executive Order No. 19 Reserve.** On February 5, 2002, Governor Easley signed Executive Order Number 19 authorizing a Declaration of Emergency and directing the Office of State Budget and Management (OSBM) to take necessary measures to insure a balanced budget for 2001-2002 fiscal year. Measures taken by OSBM included spending restrictions, suspension of local government reimbursements, cash balance transfers from agency Special Revenue Funds, Trust Funds and Internal Service Funds, and transfers from the Savings Reserve, Tobacco Settlement, and Highway Trust Fund. The Easley Executive Order No. 19 Reserve specifically accounted for the local government reimbursement of \$212.9 million, and Tobacco Settlement funds of \$112 million. Per instructions from OSBM, the entire balance was transferred to

General Fund Availability at the end of the fiscal year 2001-2002, leaving an ending balance of zero.

**Disaster Relief Reserve.** The 1996 Second Extra Session, Section 7.9, Chapter 18 of House Bill 53 authorized the Director of Budget to create the Disaster Relief Reserve. At the beginning of fiscal year 2001-2002, this reserve had a balance of \$448.6 million. During the fiscal year \$131.4 million was transferred to Hurricane Floyd and Fran programs of recovery. The 2001-2002 fiscal year ended with a balance of \$317 million.

The following schedule summarizes current year changes in the budgetary reserve accounts. Amounts are expressed in thousands.

General Fund Reserved Fund Balance	Balance June 30, 2001	Increases		(Decreases)		Balance June 30, 2002
		Transfers from General Fund Unreserved Fund Balance	Unbudgeted Revenues	Transfers to General Fund Unreserved Fund Balance	Unbudgeted Expenditures	
Savings.....	\$ 157,522	\$ 90,000	\$ 7,352	\$ (239,342)	\$ (15,532)	\$ —
Retirees' health premium...	53,895	—	—	—	(3,085)	50,810
N.C. Railroad acquisition...	31,582	—	—	—	(9,501)	22,081
Disproportionate share.....	1,170	—	—	—	(1,170)	—
Disaster relief.....	448,608	—	123,583	—	(254,956)	317,235
Exec. Order #3.....	178,472	2,911	—	—	(181,383)	—
Exec. Order #19.....	—	—	440,915	(324,915)	(116,000)	—
Total.....	<u>\$ 871,249</u>	<u>\$ 92,911</u>	<u>\$ 571,850</u>	<u>\$ (564,257)</u>	<u>\$ (581,627)</u>	<u>\$ 390,126</u>